



RED HERRING MAGAZINE

PRINT MERGE

iPrint wants to become the front end for the entire business forms printing market.

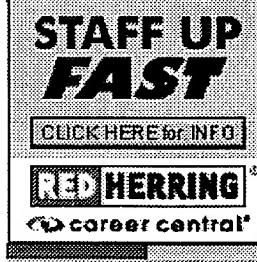
By Jonathan Burke
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The laser printer gave many consumers a reason to buy PCs. Similarly, electronic access to large-scale printing companies may be enough to prompt some corporations to do business over the Internet. The Web has stunning implications for the printing industry: with the current infrastructure, PC users can simply point and click to have their corporate report or direct mail batch-routed to the lowest-bidding commercial printer.

iPrint is the first company to make a move--albeit a modest one--in this direction. Since December 1996, iPrint's customers have been able to go to a Web site (www.iprint.com) that lets them access an online application to design their own business cards through a series of simple interactive steps. The company claims that its automated, self-service setup allows it to reduce printing costs by as much as 70 percent. Unlike the proprietary online services of traditional print shops like Kinko's and Deluxe (Kinkonet and Printovation, respectively), iPrint isn't financially burdened with the need to rent or staff a retail location, so overhead costs are minimal. Further differentiating iPrint are the applications it is developing for creating and selling letterhead stationery, marketing collateral, advertisements, and other printed products.

iPrint's CEO, Royal Farros, predicts that whichever company first develops and markets a software product that gives users Internet solutions to their print needs will become the Net's aggregator for the printing industry. Mr. Farros hopes to set the standard for preparing online documents for printing and to automate the industry's competitive-bidding process.

So far, iPrint has shown that it has the technology to achieve its aim, and the company has attracted considerable press buzz as well as support from many printers and a couple of large technology companies. But as a



tiny startup, iPrint faces the challenge of trying to build a loyal customer base in an open-standards environment that leaves plenty of room for deep-pocketed printers to catch up. Furthermore, iPrint offers printing companies a complicated relationship: the company wants to license its software to them, but it also has the potential to lower their margins through automatic print brokering.

Incubation period

Mr. Farros has the credentials to please both partners and investors. He cofounded T/Maker, perhaps the biggest name in electronic clip art. In 1994 he sold T/Maker to the check-printing giant Deluxe, reportedly for \$20 million. Mr. Farros went to work for Deluxe, where he developed software for do-it-yourself business cards. Deluxe set up kiosks in 400 Staples office-supply stores where customers could use the software to design cards. Mr. Farros explains that the kiosks helped prevent printer errors and customer disappointment, the industry's biggest problems with business cards. In fact, about 10 percent of business cards must be reprinted because of transcription errors or the buyer's dissatisfaction with a typeface. The Staples kiosks cut this problem in half.

In 1996, Deluxe's new CEO decided to exit the low-end printing market, which includes business cards. Mr. Farros bolted, set up shop in a Bay Area business incubator, and used his own savings for seed capital. Last December, after 11 months of development, iPrint launched a product that lets users select fonts, layout templates, and graphics and see how their business cards will look when they're printed. Without sacrificing quality, iPrint can offer 1,000 business cards for \$14.99, compared with the \$21 to \$70 that other print shops charge.

Printers' margins are slim, but iPrint is targeting a large market--the \$11 billion business forms subset of the \$200 billion commercial printing business. Sales for the largest stationery printer, privately held Taylor Corporation, are roughly \$660 million. And the launch of many new area codes this August is well timed for iPrint because it means that millions of people will have to order new business cards.

While demand for iPrint business cards has been modest in its first months, Mr. Farros is brash about the company's potential and draws the predictable comparisons with the impact of desktop publishing on the graphics industry and the automated teller machine's role in the banking industry. Although still somewhat primitive compared with, say, Brøderbund's Print Shop, iPrint's software will soon offer all the basic features of shrink-wrapped printing applications.

Mr. Farros also bills iPrint as "a great NC-ready e-business solution." To be sure, the company doesn't expect much revenue from network computers, but it hopes to get mileage from the product's use as a showcase application, perhaps at Oracle road shows.

In addition to business cards, a potential source of revenue for iPrint is

the creation of graphics-rich material that will be deployed on the Internet rather than on paper. Mr. Farros is particularly excited about the possibility of do-it-yourself online "yellow page" advertisements, which could be updated regularly--a restaurant, for example, could change its ad to promote daily specials.

Going for broker

iPrint's secondary (and somewhat conflicting) business model is to become the foremost print broker on the Web. Print brokers enjoy high-margin operations by saving clients money and hassle in negotiating with printers for the highest price/quality ratio. Mr. Farros says his company is automating this process. For its brokerage services to be viable, iPrint must secure a large stable of printers and create a trusted brand name for itself.

The company's short-term marketing strategy is to target the price-sensitive small-office/home-office market. To build its name with small businesses, iPrint plans to buy banner ads, billboards, and radio advertisements. Then it will try to woo strategic partners in retail outlets like copy centers to license its software or put iPrint-enabled NCs in their stores.

According to Don Markum, editor of *Offset Printing* magazine, iPrint's big challenge will be hooking up with the very retail outlets, like Kinko's and Sir Speedy, that it is also hoping to undercut. Someone, he predicts, will aggregate the printing market on the Web. "Most printers, especially mom-and-pop shops, don't have their own Web sites, and they definitely don't have the expertise to develop software themselves," he says.

One of Mr. Farros's former associates at Deluxe, Arnold Angeloni, expresses confidence that iPrint's concept will eventually change the face of print ordering. He adds that iPrint's position at the front end is where the greatest cost savings and biggest marketing opportunities lie. "It's exciting that Royal Farros is making the printing company something like a commodity, just as the Wal-Marts and Kmart's did with their merchandise."

First, but not alone

iPrint's fate hinges on the actions of other printing companies and of software leaders like Microsoft and Brøderbund. Mr. Farros forecasts that iPrint will blindsight the printing industry because, he says, "99.9 percent of commercial and quick printers think that simply transferring a QuarkXPress or PageMaker document over the Internet represents technology and innovation. What iPrint does dwarfs these efforts, although printers may not understand it yet because their focus is still much too narrow."

A quick survey, however, suggests that neither iPrint's concept nor its technology is all that revolutionary. According to Alex Loeb, a product unit manager at Microsoft, the software giant has decided against getting

into iPrint's core business. He allows that iPrint may be successful with business cards because customers generally don't mind reusing similar designs. But, he says, that is not the case for brochures, newsletters, Web sites, and other publications that require thousands of template options. "iPrint has found a novel use of the Internet," concludes Mr. Loeb, "but not one that solves broad or long-term customer problems--at least not where the Internet is today."

An immediate threat to iPrint is the development of Java applets by print shops. The company has chosen not to work with Java at this point because, Mr. Farros says, the programming language is slow, is not supported by many browsers, handles only a small number of fonts, and has security problems. Nevertheless, Robert Hu, who owns the 20-employee A&a Printers and Digital Graphics in Menlo Park, has pulled the cloak off a competitive product--a Java applet now in beta. Working with a Java consultant, Mr. Hu developed the Wysiwyg applet to let users make their own business cards; he will offer the applet to his own customers and has started licensing it to other printers. Mr. Hu and his partners pose a threat to iPrint by offering a comparable product and also by starting with an established customer base. Although Mr. Hu admits that his company is too small to market the Java applet to its full potential, he expects to forge partnerships with larger printers.

Mr. Hu is critical of iPrint's business model because it is aimed at the retail rather than the corporate business sector. "I frankly don't see theirs as a very lucrative market," he says. Mr. Hu also dismisses iPrint's "canned, mass-produced design process" as "awkward and inflexible."

Victor Votsch, a printing-industry analyst at Seybold, agrees with Mr. Hu. "iPrint's Web site is slow and frustrating," says Mr. Votsch. "I don't see how it adds value." Furthermore, he says, large printing companies could easily replicate iPrint's software and give customers the option of visiting their physical location if they don't have access to the Internet.

Alphaprint CEO Mike Witte sounds a similar note. iPrint's self-service model won't fly with most customers, he says. "As important and complex as printing can be, most businesses demand full service," he says. Still, Mr. Witte acknowledges that the Net will transform the printing business, noting that his company uses an intranet to connect its franchises in 23 countries. That way, when Alphaprint's customers order printed materials, they can specify pickup or drop shipment in various locations; Alphaprint's employees and automated processes take care of the logistics.

Print screen

While iPrint is trumpeting its efforts on the Internet, much of the print industry is moving to the intranet's business-to-business extension, the extranet. In a recent Cap Ventures study, 29 percent of printers surveyed were already using extranets to provide a nearly direct exchange between a customer's PC and their massive printing operations.

George Lithograph of Brisbane, California, has an early start. Prodded by its many high-tech customers, George will soon unveil a Web site to which customers can submit large jobs via secure uploads; transactions are linked to the printer's accounting and production systems. George's goal is to halve its turnaround time. In short, says Jacques Marchand, a consultant to George, "digital connections with clients provide printers with a way to move upstream." Mr. Marchand foresees the more progressive printers essentially becoming database managers for their customers. The printers will keep forms and templates that customers can access over the Web, modify, and then specify in what medium they want the material published--be it print, HTML, CD-ROM, or even video.

Mr. Marchand thinks that established printers will benefit from the Web more than upstarts like iPrint will. The reason, he says, is that the Web is a poor marketing medium even if it can greatly streamline the ordering process. For big jobs, he says, the personal bonds forged between printer and customer won't be easily severed by iPrint's impersonal model, despite the cost savings.

The early adoption of extranets by some printing companies suggests that Mr. Farros is too quick to label the entire industry flat-footed. iPrint may indeed capture significant market share in business cards, but its larger plans to establish self-service online print ordering and to aggregate the industry may require more than a little Wite-Out.

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